

State Dept., OSD reviews completed

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1. Pauley's views on Japanese external assets--Ambassador Pauley believes that the US should not waive its right of ownership of Japanese external assets in Korea or Manchuria until it has approved final disposition of these assets. He bases his recommendation on the facts that the USSR has completely ignored the US position regarding external assets and that Soviet removals from Manchuria constitute "a great miscarriage of justice." He recommends that a bilateral US-Soviet agreement regarding Korea be made to cover current production as well as removals of industrial equipment, since, on his recent trip, he noted no evidence of substantial Soviet removals but found much evidence of Soviet requisitioning of current production.

EUROPE-AFRICA

2. USSR: Smith advocates appointment of Labor Attaché--Ambassador Smith, after receiving complaints from CIO delegates to the WFTU Congress that they were "operating in the dark" concerning US foreign policy, recommends that a Labor Attaché be assigned to the Embassy in Moscow. He feels strongly that the US, in order to avoid "a source of trouble" in our foreign relations, should "guide and educate" US labor representatives who have official contacts with international labor organizations.
3. POLAND: Mikolajczyk's views on referendum results--Ambassador Lane reports that Mikolajczyk is "delighted" with the results of the 30 June referendum and believes that the Government is "seriously concerned" by the size of the opposition vote. Although the referendum was conducted without serious disorders, Mikolajczyk reports that irregularities occurred after the ballots were cast and the official Government tabulation will be false. (Mikolajczyk believes that the actual "no" vote on the three questions was 85, 60 and 10% of the total, respectively, and predicts that the Government will announce the results as 40, 25, and 5%. His Polish Peasant Party participated in the referendum in order to "prove" that early elections could be held without disorders and to learn by experience how to prevent the Government from committing subsequent irregularities.

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4. RUMANIA: Smith's views on US-Soviet participation in industry... According to Ambassador Smith, the US would gain "no particular advantage" from participation with the USSR in Rumanian industry. He points out that the proposal amounts to "glorified technical assistance" rather than effective ownership or control and that the existence of such enterprises will not deter any possible Soviet designs to expel foreign capital from Rumania. He adds that the "actual crux of the matter" is whether the US will encourage technical assistance to Soviet satellite areas prior to the definition of US economic relationships with the satellites.

Delay in reduction of Army--General Schuyler, US Delegate ACC, reports that the planned reduction of the Rumanian Army has been delayed by the Groza Government's desire to investigate thoroughly the background and "political attitudes" of each officer and NCO in order to retain only those individuals who are "politically reliable."

Possible increased train movements--Schuyler also reports that the Soviets have ordered Rumanian railroad authorities to put all railroad facilities "in perfect order" immediately. Railroad centers and diversion points, previously reported blocked with empty and loaded cars, have now been "largely cleared." Schuyler considers that these moves indicate the possibility of "imminent heavy activity."

5. BULGARIA: Arrests of US employees continue --General Robertson, US delegate ACC, reports that arrests of Bulgarians employed by the US are continuing, despite promises by the Ministers of War and Foreign Affairs and the Soviet delegate ACC that they would cease. Robertson points out that the Bulgarian Militia is "a law unto itself" and is succeeding in its attempt to "interfere with and discredit" the US Military Mission.

6. HUNGARY: New currency not likely to stop inflation--Minister Schoenfeld reports that the Government's new currency stabilization program scheduled for implementation on 1 August will probably only give the country a two-month breathing spell before the "runaway pace" of inflation is resumed (the US dollar now sells for 120 quadrillion pengoe). Schoenfeld notes that the Government program makes no

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provisions for combatting inflation by increasing the supplies available to consumers.

FAR EAST

7. KOREA: Progress in formation of political coalition in US zone--
General Hodge reports that negotiations between South Korean political parties of the Right and Left have made slow but steady progress and now have resulted in formal exchange of proposals for the formation of a coalition. Hodge believes that the unification movement has gathered such momentum that it will be difficult, if not impossible, for any of the larger parties, except perhaps the Communists, to resist it.

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